

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Integrate and
Refine Procurement Policies and Consider Long-
Term Procurement Plans.

Rulemaking 13-12-010
(Filed December 19, 2013)

**COMMENTS OF DIAMOND GENERATING COMPANY
ON ASSUMPTIONS AND SCENARIOS FOR USE IN THE CALIFORNIA
INDEPENDENT SYSTEM OPERATOR'S 2016-17 TRANSMISSION PLANNING
PROCESS AND FUTURE COMMISSION PROCEEDINGS**

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February 22, 2016

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I. INTRODUCTION AND SUMMARY

Pursuant to the *Administrative Law Judge's Ruling of February 8, 2016* ("ALJ Ruling")¹, Diamond Generating Corporation ("Diamond") respectfully submits these comments in response to specific questions presented in the ALJ Ruling regarding the California Public Utilities Commission ("CPUC" or "Commission") staff's *Planning Assumptions and Scenarios Update for the 2016 Long Term Procurement Plan Proceeding* and *California Independent System Operator's ("CAISO's") 2016-17 Transmission Planning Process* ("Staff Report"). Diamond Generating Company is concurrently filing a motion for party status in this docket.

Diamond's comments outline two proposed refinements to the assumptions and scenarios found in the Staff Report so that the Commission and parties in various resource planning proceedings can more precisely understand the scope and timing of the early retirement risk facing firm capacity resources over the planning horizon.² Put

¹ ALJ Julie A. Fitch CPUC Ruling, dated February 8, 2016:

<http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M158/K117/158117030.PDF>

² "Firm capacity resource" as used here refers to generation technologies made available to the CAISO for dispatch throughout the day and designed primarily to provide capacity products as opposed to energy. Firm capacity resources tend to have much lower or varying capacity factors than compared with resources relied upon for economic energy. These resources provide an

simply, in today's hybrid market structure, firm capacity resources may be forced to retire much earlier than the 40-year retirement age assumption made in the Staff Report. Firm capacity resources face risks of early retirement when there is no revenue stream from the CAISO markets or bilateral contracting opportunities (e.g., a multi-year commercial commitment or product for firm capacity resources) that are sufficiently compensatory to continue the operation of otherwise economic resources. Greater public, aggregated information on the timing, quantity and general types of firm capacity resources without ongoing commercial commitments to the CAISO market is a critical data set separate from assumptions regarding the timing of capacity resource retirements based only on facility age.

In order to realize the insurance-like benefits from firm capacity resources, the CPUC should make two refinements to the Staff's Assumptions and Scenarios report:

1. All scenarios should include a modified retirement sensitivity that assumes resource less than 40 years of age but without an existing multi-year forward contract commitment to the CAISO will not be available after the end of its existing contract term.
2. The CPUC should also model an "early retirement" scenario, which highlights the potential non-availability risks if firm capacity resources either mothball or retire simply because there are no fully compensatory CAISO products/markets or there are no commercially available contracts with durations and compensation sufficient to cover the operations and maintenance needs of existing firm capacity resources.

This additional scenario will provide for a meaningful contrast to the default scenario by indicating when and to what extent market mechanisms must support the re-contracting of existing resources necessary to maintain a sufficient fleet of firm capacity. Because the Commission has closed out the Joint Reliability Plan docket which was developing

insurance-type of capacity product and help integrate variable energy resources or cover for system contingencies.

data around the early retirement concern, and because new procurement process rulemakings may not have an implementation phase for a number of years, this early retirement case should be modeled as a high priority scenario.

Under the Staff Report’s assumptions, the firm capacity of uncontracted, existing resources within an age value are presumed to remain available for CAISO dispatch, even if the CAISO market revenues are not sufficiently compensatory to maintain the near-term availability of the resources. Simply assuming that “if economic conditions merit, these facilities could be made operational,” discounts the regulatory and commercial risks faced by asset owners with uncertainty about the path of securing follow-on contracts to make the requisite facility investments and maintenance revenues that will allow those resources to be physically available for dispatch.³ In other words, a rational planning assumption regarding the ongoing availability of firm capacity resources over the planning horizon is critical to understanding various energy infrastructure options consistent with the State’s significant GHG reductions goals. Better understanding the risks of early retirement on an aggregated basis will provide salient information to the market in all of the scenarios. Irrespective of how California builds out its energy supply portfolio in the 10- and 20-year planning horizons, firm capacity resources can and should provide a measure of availability insurance to the CAISO.

³ See Draft Planning Assumptions and Scenarios Update at p. 42.

II. DISCUSSION

Below are responses to specific questions presented in the ALJ Ruling that implicate the early-retirement risk and the need for aggregated data on uncontracted, existing generation:

2. *Are updates to the demand-side and supply-side assumptions reasonable and accurate? Please specify any assumptions that should be revised and provide a detailed justification supporting the revision.*⁴

Yes, modifications of assumptions should happen to differentiate capacity retirements between end of economic life and early retirements. Currently, and into the foreseeable future, firm capacity resources will play a critical role in ensuring system stability during the significant transformation of the resource mix that is underway. However, there are real risks of early, uneconomic retirement of firm capacity resources when there is no clear path to the recontracting process for existing resources. Currently, the procurement processes provide short term contracts without revenues of sufficient duration to support appropriate operating and maintenance budgets necessary to assure the availability of firm capacity resources. .

The ongoing evolution of firm capacity products, including flexible capacity with varying minimum run times and dispatchability capabilities to assist with intermittent resource integration, will likely call for some capital projects at existing resources to improve ramping rates, operating ranges and load following that require multi-year efforts for planning, permitting and implementation. It is unlikely that market design and planning questions that include the competitive procurement of existing capacity will be efficiently developed if the needed information about at-risk resources is not available.

⁴ ALJ Ruling at p. 2.

The draft Assumptions and Scenarios should be refined to make sure that whatever future procurement processes are adopted will have timely and reasonably accurate aggregated data on committed firm capacity resources.

The CPUC should not use a default assumption that all existing capacity resources will be available to CAISO during their full economic lives (presumed to be 40 years) irrespective of their commercial commitment status. Instead, the CPUC should evaluate the contract termination dates for all firm capacity resources contracts (i.e., dispatch able resources that provide Resource Adequacy and Ancillary Services with contracts expiring during the 10-year planning horizon). The “mid-level retirement” assumption should then be revised to assume that absent an executed follow-on contract committing the capacity to CAISO, these firm capacity resources will not be presumed to be available to CAISO. This assumption modification will give a more accurate picture that reflects risk of early retirement (as opposed to end-of-life retirements) in the various scenarios and better inform the CPUC’s planning and decision making in this proceeding and the new IRP/LTPP rulemaking (R.16-02-007).

4. *Do the ten proposed scenarios provide useful information for decision makers? Are there other scenarios that should be modeled instead or in addition?*⁵

The purpose of the scenarios is to provide data that enables informed decision making by the Commission and other energy agencies. The scenarios inform economic, efficient and timely resource planning to maintain system reliability and ongoing improvements to California’s environment. The Commission’s new resource planning and procurement rulemaking (R.16-02-007) contemplates making findings of need and/or

⁵ ALJ Ruling at p. 2.

approving procurement that are likely to be informed, in part, on the modeling work done in this proceeding. To support the R.16-02-007 work, the scenarios adopted here should represent a reasonable range of plausible resource development paradigms that advance the overarching GHG policy goals. Irrespective of what that the ultimately adopted procurement plan directives may become (e.g., high DG and VER deployment, TOU rate changes, high EV adoption, etc.), existing firm capacity resources can provide a measure of insurance for system operators as significant changes occur in the resource mix. The aggregated data necessary to understand the need for this insurance does not currently exist, and the Staff Report’s scenarios should be modified to analyze the “reliability insurance policy” needs that will underpin procurement process decisions.

In order to ensure that the contribution of existing, firm capacity resources can be understood and maintained, a new scenario should model the impacts of premature retirement and/or short-term shutdown of large “merchant” generation facilities (i.e., facilities that are not currently under a multi-year commercial commitment with a LSE or power marketer with a term that extends beyond the first 10 years of the planning horizon). This early retirement scenario is consistent with the how the Draft Planning Scenarios and Assumptions treats the Long Beach peakers.⁶ By assuming that no firm capacity resource will be available after the expiration of its current contract, the CPUC and the CAISO will better understand the relationship between the regulatory risks facing resources that are not utility owned and therefore better understand how and when the risk of early retirement affects the capacity resource mix available for dispatch by CAISO.

⁶ Id. at p. 41.

Alternatively, the CPUC could develop a “trajectory” scenario that reflects the timing and quantity of firm capacity that is anticipated to be at risk of early retirement (as opposed to presumed retired due primarily to age). Again, having the salient information available should improve the Commission’s flexibility and its ability to respond if new, unforeseen circumstances challenge system reliability. With periodic updating to reflect the capacity attributes of recent procurement or retirements, this trajectory scenario could be used at any time to support a prompt determination that additional forward contracting of existing firm capacity is appropriate. Because the Joint Reliability Plan docket recently closed and new proceedings regarding future procurement of new capacity could take years to reach a point of implementation, the CPUC should not intentionally wait for “development of a trajectory scenario at a later date” as currently suggested in the Draft Planning Assumptions and Scenarios.⁷

8. *Are the assumptions to be used in the RPS Calculator to generate RPS portfolios appropriate for each scenario? Why or why not?*⁸

The early retirement risk has implications for the development of the RPS calculator and the RPS portfolios. Since firm capacity resources play critical rolls in the integration of VERs, the availability of dispatchable capacity affects the integration cost calculations used in the RPS calculator. By modifying the assumptions regarding resource retirement (as discussed in our response to Question 2 above), the CPUC will develop better data on firm capacity product supply sufficiency that in turn affects integration cost assumptions.

⁷ Id. at p. 51.

⁸ ALJ Ruling at p. 3.

III. CONCLUSION

The Draft Assumptions and Scenarios should be modified to better capture the risk that existing, firm capacity may not be available to CAISO over the 10-year planning horizon, but instead will enter an early retirement when the resource is uncommitted for a multi-year period. The retirement assumptions in all of the scenarios should include a “mid-level” sensitivity that assumes that firm capacity resources will not be available at the end of their existing contracts even if the resources are presumed available under the age-based retirement assumption. Existing firm capacity resources should only remain as available capacity during the planning horizon if the existing firm capacity resources have an ongoing capacity commitment to a LSE, power marketer or site host. The CPUC should also model an “early retirement” scenario to allow for a meaningful comparison to the default scenario where retirements are assumed only at the end of life based on age. These modifications will allow for more informed decision making in the various planning and procurement proceedings that utilize this modeling, including the upcoming resource planning and procurement proceeding (R.16-02-007).

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Respectfully submitted,

By: _____/s/

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